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SENSITIVE
SIPDIS

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STATE PASS TO USTR (SFRANCESKI)
STATE PASS TO USAID
COMMERCE FOR ITA/OTEXA MARIA D'ANDREA
DHS FOR CBP

E.O. 12958: N/A
TAGS: ETRD ECON KTEX EAID JO
SUBJECT: Jordan's Garment Industry Hurting - High Production Costs and Low Sales Are to Blame

REFS: A) 08 AMMAN 3359
B) 08 AMMAN 3267
C) 07 AMMAN 4993
D) 07 AMMAN 4038

SENSITIVE BUT UNCLASSIFIED

¶1. (SBU) Summary: Jordanian exports from the Qualifying Industrial Zones (QIZs), which are predominantly apparel, fell almost 17% to $946 million in 2008. Since 2007, at least twenty garment factories in the QIZs have closed down; four have downsized; and five decided to expand operations in other countries instead of Jordan. While this trend is in part attributed to the worldwide financial crisis leading to decreased apparel orders, the private sector has continued to cite high production costs in Jordan as a contributing factor. Shipping and logistics industries have also been affected, with Maersk seeing a 40% drop in its shipping business since mid-2008 due to reduced apparel orders. End Summary.

QIZ Exports Decrease 16.97%

¶2. (SBU) According to Jordan's Ministry of Industry and Trade (MOIT), QIZ exports, which are predominantly garments, totaled $946 million in 2008, representing a 16.97% decrease from $1.14 billion in 2007. NOTE: While Jordan has 13 designated QIZs, only six QIZs with about 90 garment companies actively export, including Al-Dulayl, El-Zay, Al-Hassan, Al-Tajamouat, Cybercity, and Karak. END NOTE. Of the total QIZ exports, MOIT reports that $665.86 million was shipped to the U.S. under the QIZ agreement; $237.97 million was shipped to the U.S. under the FTA agreement; $19.69 million went to Israel; $898,117 was exported to other Arab countries; and $21.9 million went to other countries.

QIZ Factories Closing Down

¶3. (SBU) MOIT also informed Econoff on January 25 that at least nine garment factories in the QIZs closed in 2007, including: Pacific, Al-Safa, Expo, Al-Manar, Honorway, Asia Star, MB/Rolex, Cotton Craft, and Sari International. Another 11 factories closed down in 2008, including United Garment, Diamond Needle, Irada, Al-Kamal Embroidery, Caliber, Group Talent, New World, Jordan Dragon, Silver Planet, Formosa Jordanian Garment Industry, and Jerash Manufacturing Company.

¶4. (SBU) The CEO of Jordan Garment, Accessories, and Textile Exporters' Association (JGATE), Dana Bayyat, noted on January 21 that at least four apparel companies have also downsized, including Embee International Garment, Hi-Tech, Jordache, and Century Wear. Another four which had planned to expand operations in Jordan ended up going to Egypt instead, including Needlecraft, Hi-Tech, Classic Fashion, and Jordache. Eam Maliban also expanded its operations in Sri Lanka instead of Jordan, claiming that the high cost of transporting and treating waste water for its denim business had become prohibitive in Jordan. Bayyat lamented the lost investment and employment opportunities due to the high cost of doing business in Jordan. She believed the garment sector was in critical condition.

¶5. (SBU) Over half of the closed factories were in the privately-run Al-Tajamouat QIZ, where they employed over 6,200 workers and exported over $135 million annually. Bayyat noted that the problem may have been that Tajamouat rented the land and buildings, unlike Al-Dulayl QIZ which required investors to buy the land and has thus seen fewer factories close. Halim Salfiti, Chairman and CEO of Tajamouat Industrial City, regretfully admitted that Tajamouat may have made a mistake in providing buildings and land for rent, which had the initial benefit of attracting investors but also made it easier for companies to pack up their machines and leave when business took a downturn. Salfiti said Tajamouat has tried to lower rent prices for current tenants in order to retain them but rent only accounts for about 2% of factory costs. Although some of Tajamouat tenants have suffered from the impact of the global financial crisis, Salfiti noted that the closure trend started in 2007 before the crisis fully hit and was more likely due to labor problems and rising production costs in Jordan (refs C and D).

¶6. (SBU) Salfiti said that he now has over 800,000 sq. ft. in empty building space and is having a hard time finding new tenants, although he did just sign on Palestinian garment factory Al-Bayareq. Tajamouat has attracted some storage firms and local industry manufacturers of office chairs and food stuff, but Salfiti said the scale of operations is much smaller. For example, whereas a garment company would use 107,000-161,000 sq. ft., local industries are looking for 10,000-32,000 sq. ft. He noted it has been easier to rent out the ground floor factory space than the upper levels, which he is now thinking to market as a suitable outlet for call centers.

Transport Industries Feeling the Pain

¶7. (SBU) Maersk Logistics Jordan, whose clients are 90% apparel, indicated to EconOff on January 19 that its shipping business had decreased 40% since mid-2008 due to the closure of some garment factories and decreased apparel orders. In September 2008, Maersk began offering a direct shipping line from Aqaba to the U.S. east coast to improve business. Although the service costs more than shipping out of Haifa due to the direct vessel, it takes less time (i.e., 14 days from Aqaba to N.Y.) and involves less risk of strikes and political unrest than the Haifa route, according to Maersk.

Optimism and Calls for Government Support Remain
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¶8. (SBU) Despite the tough times, Bayyat expressed optimism for the future, particularly with new designations of QIZ satellite factories that could increase Jordanian employment (ref A). She argued that the apparel industry was still young in Jordan and needed some government support to survive (ref B). In particular, she highlighted the desire to have the government waive worker permit fees, cover the cost of transportation for Jordanian workers to the factories, or pay for training of new Jordanian employees. Salfiti also mentioned the desire to have the GOJ eliminate or reduce the 25% income tax and heavy municipal taxes for private QIZ operators, noting that the government-run QIZs are exempt from such taxes.

¶9. (SBU) MOIT Secretary General Montaser Okla indicated to Econoff on January 25 that 2009 would bring better export figures for the

garment sector. MOIT reported that five new garment companies (Beks Textile, Central Clothing, M.F. Textile, Falcon, and Al-Falak Textiles) opened in 2007, and two (Free Zone and Kadbi) opened in ¶2008. Cammy Wu, General Manager at the Richpine factory in Cybercity, also noted that Ann Taylor recently indicated it would begin working with Richpine, after initially planning to contract outside Jordan. Such new orders tend to give a ray of hope to the garment industry in Jordan, which is relying upon its good reputation and high quality to maintain competitiveness during this difficult period.

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